Department of the Treasury
Bureau of Engraving and Printing

Chief Financial Officer

Performance and Accountability Report 2010

Mission

The Bureau of Engraving and Printing develops and produces United States currency notes, trusted worldwide.

BEP's Organizational Core Values

Integrity • Fairness • Performance • Respect

Vision

The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.

[photo: Sample Currency]

About The Cover

The photograph featured on the cover is a birds-eye view of the Bureau's currency overprinting equipment carousel. The carousel is used to sort serial numbered Federal Reserve notes in stacks of 1,000 prior to packaging.

[photos]

Large Examination and Printing Equipment (LEPE) Installation

As part of the Bureau's retooling effort, installation of the first of three LEPE currency presses was completed at the Western Currency Facility.

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Message From The Director

[photo]
BEP Director Larry R. Felix

The mission of the Bureau is to develop and produce United States currency notes, trusted worldwide. Achieving our mission this past year has challenged the Bureau like no other.

In 2010, the Bureau's production of a redesigned $100 Federal Reserve note proved extremely challenging. The single biggest obstacle to successful production was the tendency of the $100 currency paper with the three dimensional security ribbon to crease as the sheets of paper fed through the intaglio printing press. The creasing problem and other operational challenges that surfaced with this note resulted in high spoilage, reduced productivity and inconsistent quality of finished notes. Given the intense scrutiny and expectations for this note in the global marketplace, the Bureau suspended production of the note until it can be produced consistently at high quality standards.

The importance of producing and delivering currency of consistently high quality, note-after-note, especially for the new design $100 note, cannot be overstated. Its global reputation as a store of value is not taken lightly. We are working to resolve the quality issues and have focused our resources to overcome the challenges surrounding this note so that production can resume. However, we will not restart production of the new design $100 note until we are confident that the note can be consistently produced and delivered with the high quality that meets the demands of worldwide circulation.

While maintaining an intense focus on the new design $100 note throughout the year, the Bureau continued to move forward with its multi-year effort to retool the currency manufacturing process with upgraded intaglio printing presses, electronic inspection systems, and finishing equipment. The Bureau completed the acquisition of eight new intaglio printing presses with the installation of the last two presses at the Bureau's Western Currency Facility. The acquisition and installation of the inspection and finishing systems is ongoing and is expected to be completed over the next three years. The successful implementation of this advanced technology from end-to-end will improve productivity, reduce the Bureau's environmental impact, and enhance counterfeit deterrence of U.S. currency. Additionally, we are about to begin a multi-year project to reduce our environmental "footprint" by replacing the Bureau's waste-water treatment facility in Washington, DC. The new waste-water recycling system will reduce the Bureau's annual water consumption by 12 million gallons.

Work continues on the goal of enabling the Nation's currency to better serve domestic and international users, including the blind and visually impaired. The Bureau will be incorporating features into the next redesign of currency that will assist every American to better use and denominate currency. In 2011, the Bureau will formally issue recommendations to the Secretary of the Treasury for the redesign of our currency to provide specific accommodations for the blind and visually impaired.

This year I also accelerated a multiyear effort to become a better place to work. I am particularly disappointed in the Bureau's overall ranking in the Employee Viewpoint Survey. Consequently, a formal action plan has been developed to address employee concerns that were gathered from focus groups in 2010 and aggressive measures are being taken to more fully engage employees. The challenges that the Bureau faces can only be met with an engaged workforce.

Looking back at the past year, our employees have been challenged like never before. Their hard work, ingenuity and perseverance in solving the many production challenges of the new design $100 note has been unwavering and will soon move us to success with this note. The Bureau is extremely fortunate to have a focused and dedicated group of professionals at every level. They are a diverse team of employees united by a resolute commitment to excellence. Together we will make all the necessary improvements in technology, processes and quality performance to produce and deliver new design $100 notes that symbolize the rich tradition of excellence that is the Bureau of Engraving and Printing.

<signature>
Larry Felix

Message From The Chief Financial Officer

[photo]
BEP CFO Leonard R. Olijar

The Bureau of Engraving and Printing's Performance and Accountability Report for 2010 is presented herein. Overall, organizational performance in 2010 was disappointing as the Bureau struggled to bring the redesigned $100 note into production.

Notwithstanding the operational difficulties in 2010, we continued a commitment to strong financial management; timely, accurate financial reporting, and continual improvement at the Bureau. This tradition of quality financial management resulted in an unqualified audit opinion on the Bureau's financial statements for the 26th consecutive year. Further, the Bureau received, for the sixth consecutive year, an unqualified opinion on management's assertion of effective internal control over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Both accomplishments spring from the efforts of a long, unbroken line of outstanding employees committed to excellence.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. The annual audit and opinion on internal control over financial reporting help to ensure the integrity of the revolving fund, as well as the reliability of financial data used for managerial decision-making.

Challenges in the production of the new $100 note had a negative impact on Bureau operations in 2010. Revenues were down substantially from plan, costs were higher and overall operational performance was below expectations. These challenges resulted in a reduction to the 2010 currency order from the Federal Reserve Board and the Bureau not fulfilling the Board's currency requirements for the redesigned $100 note.

In 2010, the Bureau delivered 6.4 billion currency notes to the Federal Reserve Board, resulting in revenue of $631.4 million and an excess of revenue over expenses of $43.4 million. The excess of revenues over expenses funds Bureau working capital requirements and future investments in plant and equipment. Included in the revenue is a surcharge of $212 million. This surcharge enabled the Bureau to recover fixed costs incurred that were not collected through product sales due to the program reduction and $100 note production problems. Deliveries of the $100 note were 1.3 billion less than planned, and the resulting revenue shortfall depleted working capital necessitating the surcharge.

During the year, the Bureau continued a multi-year recapitalization of its Washington, DC and Fort Worth, Texas facilities. Targeted investments in new production and test equipment will improve productivity, reduce the Bureau's environmental impact, and provide the capability to produce increasingly sophisticated and complex currency designs.

In 2010, the Bureau also continued the implementation of the BEP Enterprise (BEN). BEN will provide an integrated information technology platform that will simplify and standardize the integration of disparate information technology systems and applications used in the Bureau. The financial applications for this effort are part of the Manufacturing Support Suite (MSS) which uses the Oracle E-Business Suite. The MSS will be hosted through the cloud at the Oracle Federal On-Demand site. MSS is expected to go live in two phases during calendar year 2011.

As the Bureau prepares for the future, we must renew our focus on quality manufacturing, superior customer service, and efficient stewardship of resources so we can more effectively meet the needs of all stakeholders. The Bureau is positioning itself to meet these needs from both an operational and financial management perspective. The Bureau has the financial resources necessary to invest in its employees to maintain a talented workforce, and a well-disciplined capital investment strategy to enhance product quality, promote counterfeit deterrence and ensure the cost effectiveness of the manufacturing processes.

In an environment of increasing needs and decreasing resources, we are focused on efficiently and effectively allocating increasingly scarce resources.

<signature>
Leonard R. Olijar

Highlights of the Year

In April 2010, a redesigned $100 note was unveiled to the public. This is the most sophisticated and complex banknote the United States has ever produced, incorporating new, state-of-the-art counterfeit deterrent features. As a result of the $100 note's complexity, consistently producing the redesigned banknotes while meeting the Bureau's stringent quality standards has been challenging.

Despite the production challenges, the past year has been replete with achievements. In 2010, the Bureau of Engraving and Printing received an unqualified opinion on its financial statements for the 26th consecutive year and for the sixth consecutive year the Bureau received an unqualified opinion on its internal control over financial reporting.

Additional financial and operational highlights for 2010 include:

[photo]
As part of the Bureau's retooling effort, two new intaglio currency presses were installed in WCF.

[photo]
The Large Examining and Printing Equipment in WCF is scheduled to begin production in 2011.

Two New Intaglio Presses in Fort Worth

As a continued part of its multi-year recapitalization, the last two intaglio currency printing presses were installed in the Western Currency Facility (WCF) in Fort Worth, Texas. These new sheet-fed presses feature colortronic ink fountains, indirect inking, and an enhanced on-line inspection system. Each press has a "Stack and Rack" delivery system developed by Bureau employees. This delivery system provides improved ergonomics for our printers and reduces spoilage due to ink set-off.

LEPE

In addition to the intaglio presses commissioned in WCF, the Bureau is well underway to retooling and retrofitting both facilities in preparation for the manufacture of future generations of U.S. currency. To this end, the Bureau has begun installation of the first of three Large Examining and Printing Equipment (LEPE) machines. These LEPE machines are capable of processing 50-subject currency sheets, as well as providing efficient multi-tasking capabilities to print serial numbers and seals, in addition to cutting and packaging in a single process.

BEP Enterprise – BEN

The Bureau has continued the modernization of its business information systems under the BEN program. A companion project to the ongoing equipment recapitalization, the primary objectives of BEN are to increase quality, reduce spoilage, improve accountability, and increase productivity. The Bureau continued the BEN program during the year completing the first major milestone on the Data Management Model (DMM). DMM is the component of BEN that focuses on the shop floor and will modernize the way in which BEP captures and utilizes operational data to improve efficiency and quality. DMM collects, analyzes and displays production floor data for near real-time monitoring.

WCF Environmental Award

In November 2009, the Western Currency Facility received a Pollution Prevention Award from the City of Fort Worth Water Department for projects that reduced the use of solvents containing volatile organic compounds on the intaglio presses and multiple projects that reduced the use of electricity.

Lean Six Sigma

In efforts to become more efficient, the Bureau is utilizing Lean Six Sigma. Lean Six Sigma is a business process reengineering tool that measures, analyzes, improves and controls existing processes. It is an effective approach for improving service and quality while empowering employees.

Targeted Buyouts

In order to correct staffing imbalances resulting from a decreasing Federal Reserve Board currency order, one of the Bureau’s strategic initiatives is to assess and address staff imbalances. During the year, the Bureau offered targeted separation incentives (buyouts) and early out retirement to select employees. Forty employees accepted the buyout/early out offer resulting in a saving of over $1.5 million in 2010. In addition, cross training and developmental assignments are being used to address staffing imbalances.

[photo]
Colleen McKinney and Bob Hobbs accept the Pollution Prevention Award on behalf of the Bureau.

[photo]
BEP employees participate in Lean Six Sigma training.

Limestone Facade Project

During the year, a construction project was begun to renovate the limestone facade of the Bureau's Main building, which was completed in 1914. This investment protects the vital structural system from weather related deterioration and damage.

Veteran's Appreciation Day

In honor of Veteran's Day, the Bureau held "Veteran's Appreciation Day." This year's theme, "Honoring All Who Served," paid tribute to all of the Bureau's men and women who have served in the United States Armed Services.

Bring Our Children to Work Day

In June, the Bureau hosted "Bring Our Children to Work Day." Employees at both the Washington, DC and Fort Worth, Texas facilities were encouraged to bring their children to work to see the vital services Bureau employees provide in support of the Nation's economy. More than 200 children participated.

Expanded Tour Hours

The Bureau expanded its public tour hours at both facilities in order to provide additional opportunities for tourists to visit its unique operation. During the extended tour hours this past summer, the Bureau hosted almost 100,000 visitors.

[photo]
Limestone facade renovation underway at the Washington, DC facility.

[photo]
Veteran's Appreciation Day poster displayed at the Washington, DC facility.

[photo]
Charlene Williams, Associate Director (Western Currency Facility) presented Brigadier General Robert S. Arthur with a framed Lone Star note to thank him for speaking at their Veteran's Day event.

Treasury Secretary Geithner Forum

As part of a continuing conversation, Secretary of the Treasury Timothy Geithner hosted a Treasury Town Hall Meeting at the Bureau to talk about the mission and challenging work at the Treasury Department. The purpose of the forum was to spark a dialogue to find ways to continue to improve communication and make Treasury more effective.

Intaglio Proof Press

In 2010 the Bureau acquired an indirect-direct inking intaglio proof press (ITP) to accommodate the development of complex future currency designs and proof printing. The ITP is capable of printing 4-colors simultaneously, and replicates the printing techniques and capabilities of the production intaglio presses. The ITP press will provide the Bureau with the capability to conduct production trials of complex banknote designs and security features that may be adopted for future currency redesigns.

[photo]
Treasury Officials Timothy Geithner, Secretary (center), Neal Wolin, Deputy Secretary (right), and Daniel Tangherlini, Assistant Secretary for Management and Chief Financial Officer (left), answer questions during the Treasury Town Hall Meeting hosted at the Bureau.

[photo]
The new intaglio proof press installation team.

[photo]
Ed Mejia, Plate Printer, working on the new intaglio proof press.

Profile of the Bureau of Engraving and Printing

The mission of the Bureau of Engraving and Printing is to develop and produce United States currency notes, trusted worldwide.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by a revolving fund established in 1950 in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations.

The Bureau produces U.S. currency and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence. The Bureau reviews cash destruction and unfit currency operations at Federal Reserve Banks and it is responsible for the accountability and destruction of internally generated security waste products. As a service to the public, the Bureau also processes claims for the redemption of mutilated paper currency.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve notes and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve notes. The Main Building became operational in 1914, the Annex Building in 1938, and the Western Currency Facility began operations in 1991. The Western Currency Facility was constructed to provide increased production capacity, reduce transportation costs and enhance the Nation's emergency preparedness.

[photo]
Adolphus Miner Jr., Simultan Pressman, removing a simultan sheet for a quality check.

[photo]
Michael Beck and Raymond Sheriff, Plate Printers, intaglio printing a copy of the Declaration of Independence.

In addition to housing production facilities, free tours of currency operations are offered to the general public in both Washington, DC and Fort Worth, TX. The tours include Visitor Centers with currency manufacturing displays, interactive kiosks and other information about the history of our Nation's currency. The Visitor Centers also sell uncut sheets of currency, engravings and other collectibles. In addition to the on-site sales centers, these items are available through mail order and the internet at: www.bep.treas.gov.

Manufacturing

In recent years, the Bureau has redesigned and produced new $5, $10, $20, and $50 notes for the Federal Reserve Board. The new designs are part of the U.S. government's ongoing efforts to maintain the integrity of U.S. currency. The latest note to be redesigned is the $100 note, which was unveiled in 2010.
During 2010, the Bureau delivered 6.4 billion Federal Reserve notes to the Federal Reserve System. The Washington, DC and Fort Worth, TX facilities delivered 2.2 billion and 4.2 billion Federal Reserve notes, respectively. For 2011, the Federal Reserve System has ordered 7.6 billion Federal Reserve notes.
In keeping with its tradition of product innovation and production efficiency, the Bureau has installed and made operational eight new state-of-the-art intaglio printing presses. The presses have an indirect inking system, the ability to print 50-subject currency sheets and an automated, electronic inspection system. Successful implementation of this advanced technology will improve productivity, reduce the Bureau's environmental impact and provide the ability to produce increasingly more complex currency note designs.

The Bureau's quality management system for the production of U.S. currency has been registered as ISO 9001 compliant for the past nine years. In 2010, the Bureau's ISO 14001 registration for its environmental management systems (EMS) at both the Washington, DC and Fort Worth, TX facilities was re-certified. The ISO certifications are indicative of the Bureau's commitment to continuous process improvement and world class management practices.

[photo]
David Thornton, Simultan Pressman, mounting plate for printing.

[photo]
Marcus Alegria, Simultan Pressman, performing a quality review of an offset printed currency sheet.

Information Technology

In 2010, the Bureau’s Chief Information Officer (CIO) continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of IT programs and resources.

Also during 2010, the CIO participated and continues to participate in a number of reviews of financial, Federal Information Security Management Act (FISMA), and support IT systems as the Bureau applies OMB Circular A-123 and the Government Accountability Office’s Federal Information System Controls Audit Manual (FISCAM) audit standards in support of the annual audited financial statements. The Bureau’s CIO continues to be an active participant in Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises and through biannual tests of the COOP plans for the Bureau’s management information systems.

Organization

The Bureau’s executive structure consists of the Bureau Director, a Deputy Director, six Associate Directors, and a Chief Counsel. The executive committee structure includes an Executive Committee, the Capital Investment Committee and various planning committees and subcommittees. The planning committees and subcommittees are composed of a cross-section of Bureau senior and mid-level managers that represent diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication, increased collaboration and participative, proactive management.

[chart]
BEP Staffing and Production Volume
Staffing (FTE) by Function

Year	**Manufacturing**	**Manufacturing Support**	**Administration**
2006	1003	890	297
2007	902	929	278
2008	841	887	288
2009	761	915	263
2010	754	887	247

[chart]
Currency Production by Facility (Billions of Notes)

Year	**Washington, DC**	**Ft. Worth, TX**
2006	3.7	4.5
2007	3.5	5.6
2008	3.0	4.7
2009	2.6	3.6
2010	2.2	4.2

Executive Organizational Structure

[First Level]
LARRY R. FELIX
DIRECTOR
BUREAU MISSION
The Bureau of Engraving and Printing develops and produces United States currency notes, trusted worldwide.

[Second Level]
PAMELA J. GARDINER
DEPUTY DIRECTOR
BUREAU VISION
The Bureau of Engraving and Printing is a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation.

[Third Level, First Item]
JON J. CAMERON
ASSOCIATE DIRECTOR
(EASTERN CURRENCY FACILITY)
The mission of the ECF is to assure the manufacturing of high quality government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in the Washington, DC facility.

[Third Level, Second Item]
CHARLENE WILLIAMS
ASSOCIATE DIRECTOR
(WESTERN CURRENCY FACILITY)
The mission of the WCF is to assure the manufacturing of high quality government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in the Fort Worth, Texas facility.

[Fourth Level, First Item]
LEONARD R. OLIJAR
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)
The mission of the CFO Directorate is to provide superior customer service while: maintaining the integrity of the Bureau's revolving fund; executing financial management responsibilities; ensuring proper authorization for production activities; promoting compliance with internal controls, ISO standards for quality and environmental management systems and Treasury regulations; providing acquisition services, and redeeming mutilated paper currency.

[Fourth Level, Second Item]
SCOTT WILSON
ASSOCIATE DIRECTOR
(MANAGEMENT)
The mission of the Management Directorate is to provide the highest quality Security, Human Resources, Facilities Support, Environmental, Health and Safety Services, Employment Opportunity, and Labor Relations, in support of the overall Bureau mission.

[Fifth Level, First Item]
PETER O. JOHNSON
ASSOCIATE DIRECTOR
(CHIEF INFORMATION OFFICER)
The mission of the CIO Directorate is to provide proven, secure, state-of-the-art information technology in support of cost-effective production of U.S. security products, with primary emphasis on U.S. currency.

[Fifth Level, Second Item]
JUDITH DIAZ MYERS
ASSOCIATE DIRECTOR
(TECHNOLOGY)
The mission of the Technology Directorate is to support the production of U.S. currency and other government securities by incorporating new features that prevent counterfeiting, by developing new production processes that enhance the quality and production of securities, by providing technical support to the production process, and directs the effective operation of BEP's quality management system.

[Sixth Level]
KEVIN J. RICE
CHIEF COUNSEL
The mission of the Office of the Chief Counsel is to provide the highest quality legal services in support of the overall Bureau mission.

Safety, Health and Environmental Management

In 2010, a third party auditor recertified both Bureau plants' Environmental Management Systems (EMS) to the ISO 14001 standard. Unlike other organizations, BEP's EMS includes all aspects of environment, as well as health and safety. As each facility's EMS matures, continuous improvement principles are increasingly integrated into all aspects of normal operations. In the broadest sense, the goals of BEP's EMS are to minimize the impact of injuries and illness to our employees, and reduce our environmental impact. Through the Bureau's Quality Service initiative in 2010, the nexus between the health and safety risks associated with the use of hazardous materials, and the adverse impacts to the environment of disposing of hazardous materials, became more apparent than ever. In 2011, the Office of Environment, Health, and Safety (OEHS) will continue to reduce the risk associated with hazardous materials. Specific achievements in worker health and safety, and the environment follow.

Improving Worker Health and Safety

The primary focus of our Safety & Health function is to reduce injuries and illnesses, and our key performance indicators are the Occupational Safety and Health Administration's (OSHA) reportable lost time case rate and the number of lost workdays.

The Bureau's lost time case rate in 2010 increased to 1.78 lost time injuries per 100 employees per year. In addition, the Bureau had 1,041 lost workdays in 2010 as compared to 1,045 in 2009. In 2011, the Bureau will focus on injury analysis at the corporate level to identify best practices at both plants, determine root causes and allocate resources where they can have the greatest impact to injury prevention. In addition, each plant will become more vigorous with employee and supervisor health and safety accountability by reinforcing safe work practices.

Protecting the Environment

Environmental programs at the Bureau are driven through our ISO 14001-certified EMS. Both Bureau facilities received unconditional recertification to the ISO 14001 standard in FY 2010, and the registrar noted numerous improvements at both facilities. This reflects the maturation of the EMS and the Bureau's commitment to continually improve our EHS performance. Employee involvement is a crucial aspect of our EMS, and this remains a focus to ensure that the true experts that do the work done on "the factory floor" are fully engaged in the programs. Additionally, OEHS is working to sharpen the focus on chemical management, pollution prevention, and waste minimization to identify projects that will enable the Bureau to continue to reduce its environmental impact.

[chart]

Year	Lost Time Case Rate Per 100 Employees
2006	1.49
2007	1.03
2008	2.27
2009	1.47
2010	1.78

[chart]

Year	Lost Work Days Due to Injury
2006	839
2007	453
2008	418
2009	1045
2010	1041

The following environmental programs and plans have been improved or continued:

* The Bureau recycled more than 50% of the non-hazardous municipal waste it generated in 2010, and continues to actively seek additional ways to increase recycling and divert waste from landfills.

* The Western Currency Facility (WCF) applied for acceptance in the Texas Commission on Environmental Quality's (TCEQ) Clean Texas Program, an environmental leadership program. To date, only 120 facilities in the State of Texas have been accepted into the program. TCEQ conducted an on-site verification audit of the WCF's environmental programs and systems on September 22, 2010, at which time the TCEQ auditor indicated that he will recommend that WCF be accepted into the program.

* Energy reduction initiatives implemented at both plants have lowered the Bureau's energy usage by 23.2% from 2003 to 2009, far surpassing the Federal target of 12% for the same time period.

* The Bureau plans to implement a wiping solution recycling system in the Washington, DC facility to reclaim approximately 95% of our water-based wiping solution that is integral to the intaglio printing process. The wipe solution recycling will save approximately 12 million gallons of water annually. In addition to water savings, the project will reduce chemicals used in wiping solution production as well as energy required for solution heating. The total savings for water, chemicals, and energy is projected to be approximately $1 million annually. The conceptual design phase will conclude during FY 2011 with installation and phased implementation to begin in FY 2012.

[photo]
Corporal Willie Marks, Police Officer, participated in the free health screenings at the Bureau Health Fair.

[chart]
Bureau-Wide Waste Reductions (%)

Year	Industrial Waste Water	Regulated Solid Waste	Air Emissions
1999	0	0	0
2000	-10	-19	-27
2001	-33	-40	-36
2002	-28	-30	-32
2003	-26	-32	-40
2004	-25	-38	-35
2005	-31	-49	-37
2006	-30	-49	-42
2007	-32	-49	-43
2008	-44	-56	-44
2009	-45	-57	-63
2010	-44	-58	-61

Energy Conservation Initiatives

In support of Executive Order 13423- Strengthening Federal Environmental, Energy and Transportation Management requirements, the Bureau has completed two significant projects aimed at reducing energy consumption.

The first initiative is related to steam supply lines that run throughout the Bureau's Main and Annex buildings. The consolidation of most of the Bureau's manufacturing operations in its Main building provided opportunities to streamline the steam distribution system feeding the production areas. The reduction in steam losses from the steam piping system reduces steam consumption and, in the cooling season, reduces the cooling load and energy consumption for the chiller plant.

In 2010, combined steam consumption of the Main and Annex buildings decreased by 12% resulting in a cost savings of $443,000. Consequently, electrical demand from the chiller plant was also reduced by 5% resulting in a savings of $243,000 compared to 2009.

Also during the year, the Bureau rebuilt the Washington, DC Facility's compressed air plant. Prior to the overhaul, the compressed air plant suffered from various operational deficiencies causing inefficient operation and excessive energy consumption. The operational deficiencies included inadequate compressed air storage and the inability to vary compressed air supply to meet demand. The compressed air plant also suffered from various infrastructure deficiencies. Much of the infrastructure—piping, storage tanks, pumps, and electrical distribution dated back to the late 1950's. The rebuilt plant operates more efficiently and provides environmental benefits by reducing energy and pollutants. The Compressed Air Rebuild Project resulted in an annual reduction in electric usage of more than one million kilowatt hours with an annual cost savings of $136,000.

2010 Greenback Award

The 2010 Greenback Award winners were Mohamud A. Saleh, Office of Facilities Support, and Wayne W. Landry, Jr., Office of Operations Support for developing a process with the Office of Acquisition to profitably recycle spent forklift batteries. The recycling program has netted BEP over $27,000 to date. Future forklift battery recycling efforts will position BEP for additional savings and reduced environmental impact.

[photo]
Pictured above are Scott Wilson, Associate Director for Management; Larry Felix, Director; Mohamud Seleh, Chemist; and Jon Cameron, Associate Director, ECF, in the Annual Greenback Award presentation.

Strategic Plan

The Bureau’s Strategic Plan is aligned with the Department of the Treasury’s Strategic Plan. It serves as a roadmap to guide the Bureau toward the goal of creating a new environment that will ensure high quality cost-effective and flexible business operations for years to come. While committed to meeting the many new challenges of implementing innovative technology, the Bureau remains resolute in producing quality currency, controlling costs, being environmental stewards, and working safely as we move towards our vision – to continue to be a world-class securities printer. We want to make sure we get it right – in all respects – the first time, every time. The Bureau will rely on the ingenuity, industriousness, and commitment of every employee to meet the challenges of printing currency in the 21st century. This will require the near-perfect alignment of innovative design, advanced manufacturing technology, and a highly skilled workforce.

The Bureau’s Strategic Goal is to produce currency of consistently high quality that deters counterfeiting, contributes to public confidence, and facilitates commerce. In order to achieve this Strategic Goal the Bureau has established three strategic objectives. These strategic objectives are: (1) Quality Manufacturing, (2) Innovative and Effective Design, and (3) Security and Accountability.

Quality Manufacturing encompasses quality, cost effectiveness, and efficient manufacturing, which serve to maintain the Bureau’s stature as a world-class securities manufacturer. Consistently producing high quality currency improves customer satisfaction and maintains public confidence in U.S. currency.

[photo]
Timothy F. Geithner, U.S. Secretary of the Treasury, Rosie Rios, Treasurer of the U.S., and Larry Felix, Director of the Bureau of Engraving and Printing, view a currency sheet during a tour of the Washington, DC facility.

The Bureau continued a multi-year effort to retool its currency manufacturing process with a multi-year investment in state of the art printing, electronic inspection, and finishing equipment for the Washington, DC and Fort Worth, Texas facilities.

The technological sophistication of the manufacturing platforms being acquired will require a commensurate investment in our employees and information technology. This will enable nearly all of the Bureau's production related business decisions to be driven by near real-time manufacturing performance metrics.

Proficiency in the use of the new equipment will require employees who are highly skilled and adaptable. To ensure the availability of this type of workforce the Bureau has begun a competency/skill assessment program to elevate the skills and the proficiencies of our workforce and provide training when necessary.
Innovative and Effective Design of currency instills confidence in the integrity of U.S. currency. We will continue to collaborate with the Federal Reserve Board, the U.S. Secret Service, other partners, and stakeholders to identify, evaluate, and improve features in new currency designs, while ensuring acceptance in the market place. Counterfeiting of U.S. currency is an international issue due to the worldwide use and acceptance of the dollar. The Strategic Plan calls for conducting robust research and development to ensure a continued technological advantage is maintained over evolving counterfeiting threats.

Since U.S. currency is so widely used outside the United States, it is imperative that business and financial communities, foreign exchange companies, law enforcement groups, banking officials, other cash handlers and, ultimately, the general public around the world know about the new note designs and counterfeit deterrent features. Consequently, the Bureau has incorporated a strategy for communication and outreach programs to all currency users to inform them of new currency designs and features.

The third strategic objective in the Plan is Security and Accountability. This is an important objective because the Bureau is the U.S. Government's security printer and is mandated to maintain the highest levels of security and accountability over our product, property, funds, and other assets. The Bureau must continually guard against fraud, loss, unauthorized use, or misappropriation.

The Bureau has positioned itself to meet its strategic goals and the related objectives from both an operational and financial management perspective. The Bureau will uphold its tradition of excellence by taking advantage of opportunities to maintain a talented workforce, practice a disciplined capital investment strategy, enhance product quality, promote counterfeit deterrence, and streamline manufacturing processes.

[photo - engraving of U.S. Treasury Building]

Business Transformation

In response to a changing operating environment and the increasing sophistication of U.S. currency, the Bureau is devoting substantial resources toward ensuring continued quality currency production to successfully meet the expectations of all stakeholders. The Bureau has initiated a comprehensive set of synergistic programs designed to align and enhance all of our best practices to create superior products that meet the needs of all our stakeholders.

Offset Printing Quality Initiative

The Bureau has incorporated updated color bars on each redesigned denomination. To properly monitor background color, monitoring equipment has been installed to examine offset printing ink densities of the redesigned Federal Reserve notes. This equipment is the most effective system available to monitor and assure offset inks are printed consistently between production shifts, presses, and production facilities.

Intaglio Quality Initiative

The Bureau has upgraded the existing intaglio sheet viewing stations to optimize viewing of the new redesigned $100 optically variable ink feature. Viewing stations are located at each intaglio press and are used by the plate printers to assure visual features for each denomination meet or exceed customer standards.

Cope-Pak Quality Initiative

The Currency Verification Inspection System (CVIS) system was initiated to electronically monitor the placement and ink densities of the Federal Reserve seal, Treasury seal and serial numbers. In addition, CVIS verifies that correct serial numbers are printed on each currency sheet.

Lean Six Sigma (LSS)

LSS is a proven set of tools and techniques used to improve processes so that the Bureau can respond to internal and external customers more efficiently and effectively. LSS will support the Bureau’s Strategic Initiatives of improving customer service and employee satisfaction by empowering employees to improve their processes.

The BEP Enterprise (BEN)

BEN is the centerpiece of the Bureau’s IT investments over the next several years. As various systems are put on-line, nearly all of the Bureau’s production-related business decisions will be driven by near real-time manufacturing performance metrics available from the new production equipment being acquired. BEN will provide an integrated platform that will simplify and standardize the integration of disparate information technology systems and applications used in the Bureau to optimize the timely collection and reliability of all available data. This will have a direct and positive impact on quality manufacturing.

[photo]
Richard Zachman, Plate Printer, inspects a currency test sheet.

ISO 9001 Quality Management System

The ISO 9001 Quality Management System is an integral component of quality manufacturing and support processes, providing structure and discipline in daily operations. The ISO certification serves as an indicator to all stakeholders of the Bureau's ongoing commitment to quality manufacturing, continuous process improvement, and exceptional management practices. All are essential elements in achieving continuous cost-effective, flexible, and seamless business operations.

ISO 14001 Environmental Management Systems

ISO certification is another strong indicator to stakeholders that the Bureau is committed to environmental stewardship and responsibility. Reducing liquid and solid waste is at the forefront of the Bureau's efforts to maintain a healthy and productive environment.

Employee Development

The Bureau has implemented a goal-based performance management system that links individual and organizational results to the Bureau's performance goals and which is supported by a dynamic, continuous learning environment.

In summary, these initiatives are designed to complement and enhance one another. Separately, each will have an impact on quality manufacturing. Together, they create a synergy affecting every process in the Bureau, and thus every stakeholder. Because total quality manufacturing has never been more important, every employee at the Bureau of Engraving and Printing is committed to ensuring that these endeavors are successful.

[photo - ISO logo]
QUALITY ASSURED in conformance with ISO 9001, 14001 CURRENCY MANUFACTURING

Federal Managers' Financial Integrity Act: Plans and Accomplishments

The Federal Managers' Financial Integrity Act (FMFIA), which was passed in 1982, requires agencies to perform regular evaluations of internal controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and the Sarbanes-Oxley Act of 2002 further increased the internal control requirements.

The Bureau has a history of strong internal controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls; personnel security controls; production and quality controls; computer security and information resources management programs; and strong physical security and product accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security, accountability, and resource management are major strategic objectives.

To enhance product accountability, the Bureau maintains an Accountability Help Desk at its facilities in Washington, DC and Fort Worth, Texas. The Help Desks are staffed with personnel knowledgeable in all aspects of the Bureau's accountability system. They provide training and day-to-day assistance to accountability system users to prevent, minimize, or resolve product accountability issues. In addition, they review and update existing accountability procedures and reports to provide the controls needed to properly track and account for Bureau securities.

Ongoing efforts to improve internal controls include compliance reviews and an active internal control awareness program. The Bureau's Compliance Review Teams (CRTs) in both facilities promote compliance with Bureau operating policies and procedures by performing unannounced reviews in production, storage, and off-line components that have custody of security items. During 2010, the CRTs performed 277 unannounced reviews. The results of the reviews were reported to office chiefs, supervisors and managers responsible for enforcing policies and procedures, as well as implementing corrective actions. The Internal Control Awareness Program is used to promote the visibility and understanding of internal control issues, objectives, and requirements. Internal review personnel conduct management and organizational reviews at both facilities to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets. The Bureau's quality management system for the production of U.S. currency, as well as the environmental management system have both been ISO registered. The internal review staffs support the maintenance and continuous improvement of the Bureau's quality and environmental management systems by conducting internal quality audits throughout the Bureau.

The Bureau's Internal Control Policy Committee (Committee) provides overall guidance and coordination to the internal control program and fosters a management environment in which accountability for results and cost effective controls are maintained to ensure the reliability of financial reporting, effectiveness of operations, and compliance with applicable laws and regulations. The Committee is comprised of senior level executives and is chaired by the Chief Financial Officer.

The accompanying financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 26th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. Additionally, for the sixth consecutive year, the Bureau received an unqualified opinion from the auditors on management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework) and the requirements of Appendix A of Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." The unqualified audit opinion on the financial statements, the unqualified opinion on the internal control over financial reporting, and the FMFIA review process, ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision-making.

In 2010, the Bureau continued to emphasize increased security and accountability, standardization of Bureau hardware, software, and information technology (IT) related processes and enhanced governance of the IT program and resources. In IT security, 100% of the Bureau's Major Applications (MA) and General Support Systems (GSS) are fully accredited. In responding to concerns about lost computers and data throughout the Federal Government and the private sector, the Bureau has implemented technologies to encrypt all laptop hard drives and removable Universal Serial Bus (USB) and optical media.

The Bureau continues to refine policy and procedures for ensuring the adequacy of management controls throughout the life cycle of all hardware and software. In support of OMB initiatives, the Bureau has implemented Networx/TIC conversion under the Treasury TNet contract. Additionally, the Bureau remains committed to full implementation of the National Institute of Standards and Technology (NIST) SP800-53 and SP800-53A management, operational, and technical controls for IT systems, as well as 100% implementation of the Federal Desktop Core Configuration for Microsoft software and NIST approved configurations for other operating systems and databases.

During 2010, the Bureau was subjected to a number of audits and reviews of financial and support IT systems, and FISMA implementation. The Bureau continues to design and implement controls to comply with the Sarbanes-Oxley Act Section 404 and the Government Accountability Office's Federal Information System Controls Audit Manual audit standards, in order to support the annual audited financial statements. The CIO Directorate is an active participant to Department of the Treasury Critical Infrastructure Protection Planning efforts, including testing of Continuity of Operation Planning (COOP) responses through Government and Treasury-wide exercises. The Directorate also tests COOP plans for the Bureau's mainframe computer and enterprise management information systems.

[photo - BEP logo]

Custody of Assets

In addition to the production of currency, the Bureau has many high-value items that are used for various purposes, such as research, product testing and historical reference. Consequently, the Bureau of Engraving and Printing has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.

Currency products and other items used in test, experimental, research and other off-line activities normally are expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. The Bureau also has display areas at each of its facilities and maintains historical collections at its headquarters in Washington, DC. The displays and historical collections include valuable artifacts related to currency and the former postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are performed regularly to ensure accountability for these collections.

Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, Texas.

In order to effectively manage its fiduciary and custodial responsibilities, the Bureau has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to internal controls, is the Office of Compliance. This office evaluates and monitors internal control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director (Management), plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security as well as securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control element is included in each employee's performance plan. Employees are rated annually regarding their performance with respect to this element.

[photo]
Samnieng "Sammy" Ruiz operates a mechanized jogger/aerator that separates the sheets of currency paper in preparation for further processing. This

equipment eliminates the need for manual jogging and restacking which reduces repetitive motion and heavy lifting injuries.

Bring Our Children To Work Day at the Bureau

[photo - 7 Bring Our Children To Work Day photos]

Program Performance Measures

The Bureau measures the effectiveness and efficiency of its overall organizational performance by using program performance measures. Standards are developed annually and approved by the executive staff based on the prior year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency, and capacity utilization goals established for currency production.

Bureau-level performance measures and associated results for 2010 are as follows:

[chart]

Measured Value	2010 Standard	2010 Actual
1. Federal Reserve Notes (Cost per Thousand Notes)	$43.21	$44.85
2. Federal Reserve Notes Delivered (Billions)	8.0	6.4
3. Productivity Change 2009 to 2010	-6.5%	-8.8%
4. Currency Spoilage	7.8%	10.9%

The Bureau does not receive Federal appropriations; operations of the Bureau are financed by a revolving fund that is reimbursed through product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds necessary for capital investment. Billing rates are based on established cost standards, which are predicated on historical costs and factors such as changes in labor, material, and overhead costs.

[chart]

Currency Cost per Thousand Notes	2010 Standard	2010 Actual
Federal Reserve Notes	$43.21	$44.85

The actual production cost per thousand currency notes, which includes direct labor and materials, and applied manufacturing overhead, was above standard in 2010. This was due primarily to high spoilage and low productivity on the redesigned $100 note.

In 2010, the Bureau delivered 6.4 billion Federal Reserve notes to the Federal Reserve Board. Deliveries and billings are based on orders received from the customer. The Federal Reserve Board submits its requirements for currency deliveries to the Bureau on an annual basis. In 2010, the Bureau was not able to meet the delivery order for new design $100 notes because of production problems with the $100 note. The primary problem is that the currency paper is creasing during intaglio printing. The Bureau is looking at its processes, the raw materials and design in order to address this problem, which ultimately resulted in suspension of production of the redesigned note. For 2011, the Federal Reserve has ordered 7.6 billion notes.

[chart]

Year	Currency Deliveries (in Billions)
2001	7.0
2002	7.0
2003	8.2
2004	8.8
2005	8.5
2006	8.2
2007	9.1
2008	7.7
2009	6.2
2010	6.4

[chart]

Currency Deliveries	2010 Order	2010 Actual
Federal Reserve Notes (Billions)	8.0	6.4

Productivity is calculated based on units of output per labor hour. In 2010, overall productivity decreased by 8.8%. This was primarily due to lower than expected production volume of the redesigned $100 note.

[chart]

Measured Value	2010 Standard	2010 Actual
Productivity Change 2009 to 2010	-6.5%	-8.8%

During 2010, BEP continued retooling its facilities to improve efficiency and effectiveness while minimizing its environmental impact. This included the installation of new printing presses in the Washington, DC and Fort Worth, TX facilities and a new plating line in Washington.

Staffing development and training programs have intensified as well because the advanced technology incorporated in the new equipment requires a highly skilled and adaptive workforce. In order to develop employees' skill necessary for the new equipment, BEP developed core competencies for all positions and prepared Individual Development Plans (IDPs). Using IDPs, all employees are encouraged to continue their skill development through training and other types of professional development. To this end, the Bureau is leveraging the use of the Treasury Learning Management System (TLMS). The TLMS empowers employees, through a web-based application, to take training online that meets their individual needs.

[chart]

Currency Spoilage	2010 Standard	2010 Actual
Federal Reserve Notes	7.8%	10.9%

Spoilage, an inherent result of any production process, is an important indicator of the overall effectiveness of the production process and quality of material inputs. In 2010, overall currency spoilage was above standard, primarily due to higher than expected spoilage on the redesigned $100 note. While spoilage on this new note was expected to be higher than other denominations due to its design complexity and exacting quality standards, the problem with creasing resulted in an unacceptably high level of spoilage.

[chart]

Year	Currency Spoilage (percentage)
2006	4.3
2007	4.4
2008	4.2
2009	4.6
2010	10.9

[chart]

Measured Value	2008	2009	2010
1. Federal Reserve Notes (Cost per Thousand Notes)	$29.60	$31.55	$44.85
2. Federal Reserve Notes Delivered (Billions)	7.7	6.2	6.4
3. Productivity Change	-12.3%	-7.8%	-8.8%
4. Currency Spoilage	4.2%	4.6%	10.9%

For those performance measures that are comparable, the results of the past three years are presented. In 2010, BEP began producing the redesigned $100 note, which is much more costly than any other note that the Bureau produces. New cost and spoilage standards are developed annually for all products produced at the Bureau. Because performance to standard is a meaningful performance measure only in the applicable year, only actual manufacturing cost and spoilage data are presented.

Prompt Payment

To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125, which is now codified as part of the Code of Federal Regulations (CFR). Generally, the CFR requires payment within 30 days from the latter of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (at least 98% paid within 30 days).

The Bureau's prompt payment performance for the past three years is presented below. As the data indicates, the Bureau has continued to perform much better than the Department standard for late payments.

[chart]

Measured Value	2008	2009	2010
1. Number of Invoices Paid Late	25	38	25
2. Interest Penalties Paid	$936	$1,521	$229
3. Percent of Invoices Paid Late	0.40%	0.60%	0.41%

[photo - currency processing machinery]

Management Discussion and Analysis

The following discussion should be read in conjunction with the Financial Statements and Notes thereto and financial data included elsewhere in this report.

Overview

During 2010, the Bureau of Engraving and Printing focused its resources and efforts on producing the redesigned $100 note, the most complex note in the history of U.S. currency. Challenges associated with this effort had a profound effect on Bureau operations in 2010 that required and continue to necessitate innovative strategies to produce this complex note design with consistent high quality. Because the paper for the redesigned note is creasing during intaglio printing, the Bureau is reevaluating its processes and raw materials in order to produce this note. During this unprecedented effort, steps were taken to ensure that Bureau working capital requirements were maintained and cash reserves were sufficient to fund ongoing operations and capital investments.

Revenue for the 2010 currency program included a $212 million surcharge to recover fixed costs incurred by the Bureau during start-up and the initial production run of the new design $100 note. Production challenges related to the new design resulted in high spoilage, low productivity and unacceptable quality of finished notes. Consequently, the Bureau was unable to fulfill the Federal Reserve Board's order for 2.4 billion redesigned $100 notes in 2010. The Bureau offset the resulting loss in sales revenue with the surcharge to the Federal Reserve Board to provide the necessary working capital as it worked to resolve the manufacturing challenges so that production could be resumed.

Considerable progress has been made in resolving production challenges and production of the redesigned $100 note is expected to resume in 2011.

Cash
Bureau current cash requirements include operating expenses and capital expenditures. Cash increased by $14.1 million in 2010. The increase is attributed to the timing for cash disbursements for capital equipment and infrastructure improvements. Cash flows provided by operations for the years ended September 30, 2010 and 2009, were $80.3 million and $43.0 million, respectively.

[chart]

Year	Total Revenue (Millions of Dollars)
2006	477
2007	578
2008	517
2009	485
2010	631

[chart]

Year	**Annual Investment in Property and Equipment (Millions of Dollars)**
2006	34
2007	38
2008	54
2009	57
2010	66

Accounts Receivable

Accounts receivable decreased by $0.4 million in 2010. This was due to the reduced amount of currency delivered in the final month of the year and the related billing.

Inventories

Inventories decreased by $9.8 million in 2010. This is primarily due to the write-down of currency paper and work-in-process inventories relating to the redesigned $100 note.

Property and Equipment

Net property and equipment increased $38.4 million in 2010 to $346.4 million. The increase was related to the purchase of currency manufacturing equipment as part of the retooling effort and investments in the Bureau’s technology infrastructure.

Other Assets

Other assets remained relatively unchanged in 2010.

Accounts Payable

Accounts payable increased from $16.9 million in 2009 to $20.0 million in 2010. The principal cause for the increase was the timing of cash disbursements in making vendor payments for the public education program.

Accrued Current Liabilities

Accrued current liabilities decreased from $38.0 million in 2009 to $33.5 million in 2010 due to the accrual and timing of vendor payments for production equipment.

[chart]
Total Property, Plant and Equipment

Measured Value	Percentage
Machinery and equipment	57%
Building and land improvements	28%
Construction in progress	9%
IT equipment and software	6%

[chart]

Year	Total Assets (Millions of Dollars)
2006	553
2007	602
2008	609
2009	647
2010	689

Advances

Advances decreased by $2.7 million in 2010. The decrease is attributed to a decrease in special security product orders and related customer advances.

Workers' Compensation Liabilities

The actuarial workers' compensation liability increased by $2.8 million in 2010. The increase in the actuarial liability primarily resulted from decreases in the discount rates used to determine the liability.

Revenue from Sales

Overall revenue from sales increased from $484.8 million in 2009 to $631.4 million in 2010. This $146.6 million increase is attributable to recovery of costs associated with the redesigned $100 note.

Cost of Goods Sold

Cost of goods sold increased from $380.9 million in 2009 to $508.8 million in 2010. The $127.9 million increase relates to the higher costs associated with the redesigned $100 note. The gross margin as a percentage of revenue decreased from 21.4 percent in 2009 to 19.4 percent in 2010. The changes for both are attributed to the costs associated with the redesigned $100 note.

Operating Costs

Operating costs decreased by $1.4 million in 2010. The change is primarily attributed to a reduction in labor costs resulting from staff reductions during the year.

[chart]
Average Billing Rate for Currency

Year	Rate per Thousand Notes	Single Note
2001	$46.64	$0.047
2002	$54.39	$0.054
2003	$57.16	$0.057
2004	$55.56	$0.056
2005	$56.08	$0.056
2006	$54.56	$0.055
2007	$60.99	$0.061
2008	$63.82	$0.064
2009	$74.82	$0.075
2010	$96.34	$0.096

[chart]

Year	Research and Development Costs (Millions of Dollars)
2006	10.7
2007	14.0
2008	12.0
2009	12.0
2010	11.7

Assurance Statement Fiscal Year 2010

The Bureau of Engraving and Printing (Bureau), made a conscientious effort during fiscal year 2010 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The Bureau, taken as whole, is operating in accordance with the procedures and standards prescribed by the Comptroller General of the United States and OMB guidelines.

As required by the FMFIA, the Bureau evaluated both its internal controls and financial management systems for fiscal year 2010. The results of these evaluations provided reasonable assurance that the internal controls (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau had no instances of material internal control weaknesses and no material nonconformances outstanding as of September 30, 2010.

The Bureau evaluated its internal control over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this evaluation, the Bureau can provide reasonable assurance that internal control over financial reporting as of September 30, 2010, is operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, the Bureau has active programs in place to provide reasonable assurance that programs achieve their intended results; resources are used consistent with the Bureau's overall mission; programs and resources are free from waste, fraud, and mismanagement; laws and regulations are followed; controls are sufficient to minimize any improper or erroneous payments; performance information is reliable; systems security is in substantial compliance with all relevant requirements; continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and financial management systems are in compliance with federal financial systems standards.

<signature>
Larry Felix

SUMMARY OF OFFICE OF INSPECTOR GENERAL AND GOVERNMENT ACCOUNTABILITY OFFICE AUDITS

The Bureau began Fiscal Year 2010 with three open audit recommendations which were all issued by the Office of Inspector General (OIG). These recommendations pertained to program and contract issues. The Bureau implemented corrective action on one of those items during the year. Also, during Fiscal Year 2010, the Bureau received two additional recommendations in the one OIG audit report issued (Mutilated Currency Exchange Program). The remaining four open recommendations will be addressed as appropriate.

[photo - engraving of Bureau of Engraving and Printing facility, Washington, DC]

Assurance Statement Fiscal Year 2010

Limitations of the Financial Statements

The following financial statements are for the Bureau of Engraving and Printing, a component of the Department of the Treasury. As such, the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. The principal financial statements have been prepared to report the financial position, results of operations and cash flows of the Bureau. They have been prepared from the Bureau's financial books and records maintained in accordance with private sector generally accepted accounting principles. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

[photo - engraving of Bureau of Engraving and Printing facility, Ft. Worth, TX]

[photo - BEP seal]

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Financial Statements

Years ended September 30, 2010 and 2009
(With Independent Auditors' Reports Thereon)

[photo - currency processing equipment]

[KPMG Logo]

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

The Inspector General, Department of the Treasury and
The Director of the Bureau of Engraving and Printing, Department of the Treasury:

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (the Bureau) as of September 30, 2010 and 2009, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We have also examined in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2010, and have issued our report thereon dated November 9, 2010. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our fiscal year 2010 audit.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2010, on our tests of the Bureau's compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our fiscal year 2010 audit.

November 9, 2010

<signature>
KPMG LLP

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative("KPMG International"), a Swiss entity.

Balance Sheets

[chart]
As of September 30, 2010 and 2009

Table Level	Measured Value	Subcategory	2010	2009
Top			(In Thousands)	
Top	ASSETS			
Parent Level	Current assets			
First Child Level		Cash (Notes 3 and 14)	$153,662	$139,520
First Child Level		Accounts receivable (Note 10)	28,622	28,989
First Child Level		Inventories, net (Note 4)	140,229	150,023
First Child Level		Prepaid expenses	3,908	5,259
Parent Level	Total current assets		326,421	323,791
Parent Level	Property and equipment, net (Note 5)		346,358	307,929
Parent Level	Other assets, net (Note 6)		16,706	15,607
Parent Level	Total assets		$689,485	$647,327
Parent Level	LIABILITIES AND EQUITY			
Parent Level	Liabilities			
Parent Level	Current liabilities (Notes 7 and 8)			
First Child Level		Accounts payable	$20,044	$16,938
First Child Level		Accrued liabilities	33,513	38,013
First Child Level		Advances	11,321	14,065
Parent Level	Total current liabilities		64,878	69,016

Parent Level	Workers' compensation liability (Note 8)		58,835	55,967
Parent Level	Total liabilities		123,713	124,983
Parent Level	Contingencies and commitments (Notes 12 and 13)			
Parent Level	Equity			
First Child Level		Invested capital	32,435	32,435
First Child Level		Cumulative results of operations	533,337	489,909
Parent Level	Total equity		565,772	522,344
First Child Level		Total liabilities and equity	$689,485	$647,327

See accompanying notes to the financial statements.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Statements of Operations and
Cumulative Results of Operations

For the Years Ended September 30, 2010 and 2009

Table Level	Measured Value	Subcategory	2010	2009
Top			(In Thousands)	
Parent Level	Revenue from sales (Note 10)		$631,422	$484,824
Parent Level	Cost of goods sold		508,832	380,886
Parent Level	Gross margin		122,590	103,938
Parent Level	Operating costs:			
First Child Level		General and administrative expenses	67,448	68,310
First Child Level		Research and development	11,714	12,252
First Child Level			79,162	80,562
Parent Level	Excess of revenues over expenses		43,428	23,376
Parent Level	Cumulative results of operations at beginning of year		489,909	466,533
Parent Level	Cumulative results of operations at end of year		$533,337	$489,909

See accompanying notes to the financial statements.

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Statements of Cash Flows

For the Years Ended September 30, 2010 and 2009

[chart]

Table Level	Measured Value	Subcategory	2nd Subcat.	3rd Subcat.	2010	2009
Top					**(In Thousands)**	
Parent Level	**Cash flows from operating activities**					
Parent Level	Excess of revenues over expenses				$43,428	$23,376
First Child Level		Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Second Child Level			Depreciation		27,759	30,905
Second Child Level			Loss from inventory obsolescence		917	—
Second Child Level			Loss from disposal of property and equipment		—	72
First Child Level		Changes in assets and liabilities				
Second Child Level			Decrease in accounts receivable		367	17,563
Second Child Level			(Increase) decrease in inventories		8,954	(46,056)
Second Child Level			(Increase) decrease in prepaid		1,351	(388)

			expenses			
Second Child Level			(Increase) decrease in other assets		(1,176)	2,452
Second Child Level			Increase in accounts payable		3,106	3,579
Second Child Level			Increase (decrease) in accrued liabilities		(4,500)	9,428
Second Child Level			Increase (decrease) in advances		(2,744)	7,588
Second Child Level			Increase (decrease) in workers' compensation liability		2,868	(5,480)
Third Child Level				Net cash provided by operating activities	80,330	43,039
Parent Level	**Cash flows from investing activities**					
Parent Level	Purchases of property and equipment				(66,188)	(57,030)
Third Child Level				Net cash used in investing activities	(66,188)	(57,030)
Parent Level	Net increase (decrease) in cash				14,142	(13,991)
Parent Level	Cash at beginning of year				139,520	153,511

Parent Level	Cash at end of year				$153,662	$139,520

See accompanying notes to the financial statements.

Notes to the Financial Statements
September 30, 2010 and 2009

1. Reporting Entity

The Bureau of Engraving and Printing (Bureau), a component of the United States (U.S.) Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces U.S. currency. The Bureau also advises and assists federal agencies in the design and production of other U.S. Government documents requiring counterfeit deterrence or secure production.

The Bureau operates under basic authorities conferred by the Act of July 11, 1862, (12 Stat. 532; also, 31 U.S.C. 5114) and other laws and regulations. In accordance with the provisions of Public Law 81-656, effective August 4, 1950, the operations of the Bureau are financed by means of a revolving fund. This fund is reimbursed through billings to the Bureau's customers for products delivered. Public Law 95-81 authorized the Bureau to include in its product prices an amount to provide funding for the acquisition of capital equipment and future working capital. Invested capital represents the historical value of the initial contribution made by the Federal Government.

The financial statements represent the consolidation of two federal revolving funds. The majority of all financial transactions are contained in the Bureau of Engraving and Printing Revolving Fund, which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund, is used to redeem damaged paper currency received from the public. All significant balances and transactions between the funds have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Bureau has historically prepared its financial statements in conformity with U.S. generally accepted accounting principles (GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. Under such standards, the Bureau prepares its financial statements using the full accrual basis of accounting under which revenues are recognized when earned and expenses are recognized as incurred, regardless of when cash is exchanged.

The Federal Accounting Standards Advisory Board (FASAB) has been designated by the American Institute of Certified Public Accountants as the standards-setting body for financial statements of Federal Government entities, with respect to the establishment of GAAP. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in conformity with GAAP for those federal agencies, such as the Bureau, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau’s financial statements are presented in accordance with accounting standards published by the FASB.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related revenues and expenses. Those estimates most significant to the Bureau’s financial statements are the actuarial estimates made by the Department of Labor (DOL) in arriving at the liabilities for workers’ compensation, allowances for obsolescence, the useful lives of property and equipment, the likelihood of losses associated with contingent liabilities, and certain accrued expenses at the date of the financial statements. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

(continued)

Cash

Cash represents the aggregate amount of the Bureau's funds held on deposit with the U.S. Treasury and are available to pay liabilities. The Bureau historically does not maintain significant cash balances in commercial bank accounts, and owns no cash equivalents.

Inventories

Raw material and supply inventories are stated at standard cost, except for one advanced counterfeit deterrent material, which is valued using the first-in-first-out (FIFO) method. Finished goods inventories are stated at weighted average unit cost. All methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Property and Equipment

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is $50,000. The Bureau capitalizes all cost associated with new construction and building improvements.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. In accordance with the Act establishing the revolving fund, the Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the Department of the Treasury (See Note 5).

Depreciation of property and equipment is calculated using the straight-line method over the following estimated useful lives:

[chart]

Measured Value	**Years**
Machinery and equipment	3 - 15 years
Building improvements	3 - 40 years
Information technology (IT) equipment and software	3 - 5 years
Office machines	5 - 10 years
Furniture and fixtures	5 - 10 years
Motor vehicles	3 - 9 years

Other Assets

Other assets consist principally of machine repair parts and tools, which are used in the production of the Bureau’s products. Other assets are stated at standard cost, which approximates actual cost, net of a reserve for obsolescence.

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees’ Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by the Office of Personnel Management (OPM).

(continued)

Postretirement Benefits Other than Pensions

Postretirement benefits for former Bureau employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the U.S. Government. The Bureau does not reimburse OPM for these payments. The Bureau's financial statements do not include the cost of employee postretirement benefits paid by OPM, or the actuarial liability for such benefits.

Workers' Compensation Costs

The Federal Employee Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a workrelated occupational disease and beneficiaries of employees whose death is attributable to a jobrelated injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by DOL and are ultimately paid by the Bureau.

The FECA liability consists of two components. The first component, the accrued FECA liability, is based on actual claims paid by DOL but not reimbursed by the Bureau. The Bureau reimburses DOL for the amount of actual claims normally within one to two years after payment is made by DOL. As a result, the Bureau recognizes a current and non-current liability for actual claims paid by DOL, to be reimbursed by the Bureau.

The second component, the actuarial FECA liability, is the estimated liability for future benefit payments. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for future FECA benefits. The actuarial liability for future worker's compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB) economic assumptions for 10-year Treasury notes and bonds, which resulted in discount rates as of September 30, 2010 and 2009, of 3.65% and 4.22% in year one and 4.30% and 4.72% thereafter. Based on information provided by DOL, the Department of the Treasury allocated the overall liability to Treasury components based on past claims paid.

Annual, Sick, and Other Leave

Annual leave is accrued as a liability when earned and the accrual is reduced as leave is taken. The balance in this accrued liability account reflects current pay rates.

Sick leave and other types of non-vested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve Board is recognized when finished goods satisfactorily pass all Bureau quality control standards and are delivered to the on-site Federal Reserve Depository vaults. Finished goods are released for shipment in accordance with customer requirements. Revenue from the sale of uncut currency to the public is recognized at the time the product is shipped. The Bureau does not record an allowance for returns because of a historically negligible return rate.

(continued)

Research and Development Costs and Public Education (Advertising) Costs

Research and development costs and public education costs are expensed as incurred. Public education costs, which are reported in cost of goods sold, amounted to $15.9 million and $6.5 million in the years ended September 30, 2010 and 2009, respectively.

Tax Status

The Bureau is a federal entity, and therefore is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Contingencies

Liabilities from loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Loss contingencies that do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 12.

Fair Value Measurements

In October 2008, the Bureau adopted the provisions of ASC 820-10, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes a framework for measurement of fair value and expands disclosures about fair value measurements (See Note 14).

Subsequent Events

In September 2009, the Bureau adopted ASC 855-10, Subsequent Events. It establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued (See Note 15).

3. Cash

The year-end cash balances by fund are as follows as of September 30, 2010 and 2009:

[chart]

Measured Value	2010	2009
	(In Thousands)	
Bureau of Engraving and Printing		
Revolving Fund	$146,885	$132,319
Mutilated Currency Revolving Fund	6,777	7,201
Total	$153,662	$139,520

The balance in the mutilated currency revolving fund, consisting of processed claims for mutilated currency submitted by the public for redemption, is offset by a liability to the public which is included in advances on the balance sheets as of September 30, 2010 and 2009, respectively (See Note 7).

(continued)

Notes to the Financial Statements
September 30, 2010 and 2009

4. Inventories, net

Inventories consist of the following as of September 30, 2010 and 2009:

[chart]

Measured Value	2010	2009
	(In Thousands)	
Raw material and supplies	$54,344	$46,772
Work-in-process	45,489	57,879
Finished goods – currency	26,154	28,287
Finished goods - uncut currency	14,242	17,085
Total	$140,229	$150,023

The allowance for inventory obsolescence was $820 thousand and $743 thousand, at September 30, 2010 and 2009, respectively.

The Bureau has adjusted (written down) the value of its currency paper and work-in-process inventories relating to the redesigned $100 notes due to a problem with intermittent creasing that is occurring during intaglio printing that is resulting in abnormally high spoilage. The services of an appraiser were not used. This adjustment resulted in the recognition of a loss of $840 thousand in 2010, and $0 in 2009. This adjustment is included in the cost of goods sold on the Statement of Operations. The Bureau intends to dispose of these assets in 2011.

5. Property and Equipment, net

Property and equipment consist of the following as of September 30, 2010 and 2009:

[chart]

Measured Value	2010	2009
	(In Thousands)	
Machinery and equipment	$471,129	$450,566
Building and land improvements	234,284	229,750
IT equipment and software	46,456	26,009
Office machines	2,752	1,435
Furniture and fixtures	1,222	1,140
Donated assets - art work	125	125
Motor vehicles	212	212
	756,180	709,237
Less accumulated depreciation	481,858	454,385
	274,322	254,852
Construction-in-progress	72,036	53,077
Net property and equipment	$346,358	$307,929

Depreciation expense for the years ended September 30, 2010 and 2009 was $27.8 million and $30.9 million, respectively.

The Bureau occupies and uses buildings and land owned by the Department of the Treasury. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the Department of the Treasury in 1987, which holds the title thereto. At the time of donation, the land had an appraised value of $1.5 million and the building shell cost was $5.6 million. In accordance with the provisions of Public Law 81-656, Bureau financial statements include only the costs to build out the facility.

(continued)

Notes to the Financial Statements
September 30, 2010 and 2009

6. Other Assets, net

Other assets consist principally of machine repair parts and tools. The allowance for obsolescence for these parts and tools for the years ended September 30, 2010 and 2009 was $5.4 million and $5.0 million, respectively.

7. Current Liabilities

All current liabilities are funded and consist of the following as of September 30, 2010 and 2009:

[chart]

Measured Value	**2010**	**2009**
	(In Thousands)	
Intragovernmental	$9,731	$12,435
With the public	55,147	56,581
Total	$64,878	$69,016

Accrued current liabilities consist of the following as of September 30, 2010 and 2009:

[chart]

Measured Value	**2010**	**2009**
	(In Thousands)	
Payroll	$15,619	$14,764
Annual leave	11,676	11,185
Workers’ compensation	5,146	5,557
Other	1,072	6,507
Total	$33,513	$38,013

Advances consist of the following as of September 30, 2010 and 2009:

[chart]

Measured Value	**2010**	**2009**
	(In Thousands)	
Other Federal Agencies	$4,537	$6,855
Mutilated Currency	6,777	7,201
Public sales	6	9
Total	$11,321	$14,065

8. Workers’ Compensation Liability

Claims incurred and paid by DOL as of September 30, 2010 and 2009, but not yet reimbursed to DOL by the Bureau, are approximately $12.1 million and $12.1 million, of which approximately $5.1 million and $5.6 million represent a current liability, as of September 30, 2010 and 2009, respectively. The Bureau will reimburse DOL for these claims in the next two years. The Bureau’s estimated non-current, actuarially derived future workers’ compensation liability was approximately $51.8 million and $49.5 million as of September 30, 2010 and 2009, respectively.

(continued)

9. Employee Retirement Plans and Postretirement Benefits Other than Pensions

Employer contributions to the retirement plans were $17.0 million and $16.5 million for 2010 and 2009, respectively. The CSRS employer contribution rate for fiscal years 2010 and 2009 was 7.0%. The FERS agency contribution rate for fiscal years 2010 and 2009 was 11.2%. The cost of providing the CSRS and FERS benefits is more than the amounts contributed by the Bureau and the employees to OPM. The additional cost of providing benefits, including the cost financed by OPM, which is not included in the Bureau's Statements of Operations, totaled $26.7 million and $23.8 million in 2010 and 2009, respectively.

OPM paid costs totaling $11.1 million and $11.1 million for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2010 and 2009, respectively. These costs are not included in the Bureau's Statements of Operations. The Bureau paid costs totaling $13.0 million and $12.5 million for the FEHBP and FEGLI programs in 2010 and 2009, respectively.

10. Related Party Transactions and Concentration of Revenue

The Bureau's principal customers are other federal and quasi-federal governmental organizations. During 2010 and 2009, the Bureau's sales revenue from these organizations as well as the outstanding amounts due from them as of September 30, 2010 and 2009, are reflected in the following table:

[chart]

Table Level	Measured Value	Revenue for the year	Accounts Receivable as ended September 30		Accounts Receivable as of September 30	
Top			2010	2009	2010	2009
Parent Level	Federal Reserve Board:		(In Thousands)		(In Thousands)	
First Child Level		Currency Production	$614,860	$467,509	$27,220	$27,575
First Child Level		Mutilated Currency	3,547	3,587	869	884
Parent Level	Other Federal Agencies		3,752	3,163	106	165
Parent			622,159	474,259	28,195	28,624

Level						
Parent Level	Public sales		8,555	9,764	6	2
Parent Level	Other		708	801	421	363
Parent Level			9,263	10,565	427	365
Parent Level	Total		$631,422	$484,824	$28,622	$28,989

Revenues from other federal agencies are derived principally from the sale of security printing products to U.S. Government agencies and related fees charged.

Substantially all products are sold on a fixed price basis. In 2010, the revenue from such pricing was not sufficient to cover all costs and provide for necessary working capital due to a creasing problem with the redesigned $100 note. As a result, the Federal Reserve Board and the Bureau negotiated an additional surcharge to be funded by the Federal Reserve Board related to fiscal year 2010 production amounting to approximately $211.9 million. No surcharge was required in fiscal year 2009. This amount is included in Revenue on the Statement of Operations.

(continued)

11. Principal Suppliers

The Bureau is dependent upon sole suppliers for distinctive currency paper, and several advanced counterfeit deterrent materials.

12. Commitments and Contingencies

The Bureau is a party in various administrative proceedings, legal actions, and claims brought against the Federal Government by employees, contractors, and other parties. As of September 30, 2010 and 2009, there are no contingencies for litigation involving the Bureau, where the risk of loss is probable. Contingencies, where the risk of loss is reasonably possible, are approximately $2.9 million and $2.1 million as of September 30, 2010 and 2009, respectively. Since the risk of loss for these litigations are not probable, the Bureau did not record any liability. Management believes that the ultimate resolution of these litigations will not have a material impact on the reported financial position, results of operations, and cash flows.

The American Council of the Blind (ACB) and others filed suit against the Department of the Treasury under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2007, a judge ruled that the current U.S. currency design violates this Act and this ruling was appealed. In 2008, the United States Court of Appeals for the District of Columbia Circuit affirmed this ruling. The Court awarded no monetary damages. However, the Bureau is required to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note). The District Court ordered such changes shall be completed, in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of these changes will be incorporated into future currency redesign costs, no costs have been accrued in the accompanying financial statements as of September 30, 2010 and 2009. In August 2010, the public comment period with the United States District Court was closed.

In 2008, the United States District Court, in the above-mentioned case, ordered that the Bureau pay the ACB and others for attorney’s fees and costs. Such fees and costs were estimated to be $800 thousand and were paid from the Judgment Fund. In 2009, the Bureau determined it is not required to reimburse the Judgment Fund for those attorney fees and other costs, as they are not claims related to employee discrimination or contract disputes. In 2009, the Bureau recognized income amounting to $800 thousand related to attorney fees and other costs associated with the ACB settlement paid by the Judgment Fund on behalf of the Bureau.

The Bureau has contracted to purchase three large finishing presses, incorporating automated inspection and packaging capability, costing approximately $49.0 million. As of September 30, 2010, the Bureau has made cumulative payments of $43.5 million and the remaining commitment outstanding is $5.5 million. Delivery of the presses will be determined upon successful completion of final factory inspection tests. Progress payments related to the above contract is included in construction-in-progress within Property and Equipment on the balance sheets as of September 30, 2010 and 2009, respectively.

The Bureau does not carry commercial insurance on its physical assets because by law the Federal Government is self-insured.

(continued)

13. Operating Lease

In 2002, the Bureau entered into a cancelable operating lease for warehouse space that expires in 2012. The lease contains a renewal option for 10 years and the Bureau intends to exercise the option to renew.

Rental expense for the years ended September 30, 2010 and 2009 was $1.8 and $1.9 million, respectively.

Future minimum payments under the lease as of September 30, 2010, are (in thousands):

[chart]

Year	For the years ending September 30:
2011	$1,850
2012	935
	Total: $2,785

14. Fair Value Measurements

As discussed in Note 2, the Bureau adopted ASC 820-10, Fair Value Measurements and Disclosures, in October 2008. The fair values of the Bureau's financial instruments represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Bureau's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Bureau based on the best information available in the circumstances.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quote prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The Bureau's financial instruments are comprised of cash, accounts receivable, accounts payable, accrued liabilities, and advances as of September 30, 2010 and 2009, respectively. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. The Bureau holds no financial instruments that are measured at fair value on a recurring basis or for which the fair value option has been elected at September 30, 2010.

15. Subsequent Events

The Bureau has evaluated subsequent events through November 9, 2010, the date which the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.

[BEP Seal]

THE DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING

Management's Report on Internal Control Over Financial Reporting

We as management of the Bureau of Engraving and Printing (Bureau) are responsible for establishing and maintaining adequate internal control over financial reporting and for our assertion on the effectiveness of internal control over financial reporting. The Bureau's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Bureau's internal control over financial reporting includes those policies and procedures that:

* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Bureau;

* provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Bureau are being made in accordance with authorizations of management of the Bureau and those charged with governance; and

* provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bureau's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Bureau's internal control over financial reporting as of September 30, 2010. In making this assessment, the Bureau used the criteria established in the Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, we conclude that the Bureau maintained effective internal control over financial reporting as of September 30, 2010.

KPMG LLP, an independent public accounting firm, has issued their reports, included herein, on (1) our financial statements; (2) our compliance with certain provisions of laws, regulations, and contracts and other matters; and (3) our assertion on the effectiveness of internal control over financial reporting.

<signature>
Larry R. Felix
Director

<signature>
Leonard R. Olijar
Chief Financial Officer

November 9, 2010
Washington, DC

[KPMG Logo]

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

The Inspector General, Department of the Treasury, and
The Director of the Bureau of Engraving and Printing, Department of the Treasury:

We have examined management's assertion, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that the Bureau of Engraving and Printing (Bureau) maintained effective internal control over financial reporting as of September 30, 2010, based on the criteria established in Internal Control –Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Bureau's management is responsible for maintaining effective internal control over financial reporting and for its assertion on the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, management's assertion that the Bureau maintained effective internal control over financial reporting as of September 30, 2010 is fairly stated, in all material respects, based on the criteria established in Internal Control –Integrated Framework issued by COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended, the balance sheets of the Bureau as of September 30, 2010 and 2009, and the related statements of operations and cumulative results of operations and cash flows of the Bureau and our report dated November 9, 2010 expressed an unqualified opinion.

We noted certain additional matters that we have reported to management of the Bureau in a separate letter dated November 9, 2010.

<signature>
KPMG LLP

November 9, 2010

[KPMG Logo]

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

The Inspector General, Department of the Treasury and
The Director of the Bureau of Engraving and Printing, Department of the Treasury:

We have audited the balance sheets of the Bureau of Engraving and Printing (Bureau) as of September 30, 2010 and 2009, and the related statements of operations and cumulative results of operations and cash flows (hereinafter referred to as "financial statements") for the years then ended and have issued our report thereon dated November 9, 2010.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Bureau is responsible for complying with laws, regulations, and contracts applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of the Bureau's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Bureau. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the Bureau's management, the Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S.

Congress and is not intended to be and should not be used by anyone other than these specified parties.

November 9, 2010

<signature>
KPMG LLP

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BEP seal

[photo]
ISO seals

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* QUALITY ASSURED in accordance with ISO 9001:2000 CURRENCY MANUFACTURING *